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SUBJECT: ALL CANDIDATES LOOKING TO SPEND ON INFRASTRUCTURE

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MEXICO 953  
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MEXICO 680  
MEXICO 503  
MEXICO 351

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SUMMARY  
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¶1. (SBU) Andres Manuel Lopez Obrador (AMLO), Felipe Calderon and Roberto Madrazo have at least one shared plan: increase investment in infrastructure as the catalyst to spur economic growth, generate employment, improve competitiveness, and promote regional development. Funding their plans will be costly. Calderon foresees tapping pension funds for financing, AMLO proposes providing incentives (the details of which are unclear) to investors interested in highways, ports, and airports. Madrazo will promote infrastructure projects through synergies among the public and private sectors. To free public funds for infrastructure and other plans, the candidates will need to reign in growing pension liabilities. To do so, each will have to take on the unions. Only Calderon has publicly said as much. End summary.

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PENSION FUNDS TO FINANCE INFRASTRUCTURE  
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¶2. (SBU) This cable is part of our continuing series (reftels) on the three main presidential candidates' economic proposals as presented on the campaign trail. The candidates' economic proposals all include investment in infrastructure as a key ingredient for improved economic growth. The candidates are beginning to provide more details on how the plan to fund this investment. National Action Party (PAN) candidate Felipe Calderon proposes financing infrastructure spending through the issuance of long-term bonds that he hopes to sell to pension funds. Given swelling pension fund balances, this proposal is seen as feasible. However, some critics suggest the government seek private partners in order to share risks. In addition to greater borrowing, Calderon has proposed broad fiscal reform to raise government revenues to pay for increases in infrastructure investments. Another Calderon proposal sees amending the NadBank (North American Development Bank) agreement between the U.S. and Mexico to allow for financing of projects outside the border area.

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PAY FOR INFRASTRUCTURE BY CUTTING BUREAUCRACY  
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13. (SBU) Andres Manuel Lopez Obrador (AMLO), of the Party of the Democratic Revolution (PRD), plans to spur economic growth and employment growth through infrastructure and housing projects. He plans to pay for these projects largely by reducing the costs and structure of the federal bureaucracy, and by providing unspecified incentives for private investments. As head of the Mexico City government, AMLO provided a variety of tax incentives for private investments. If he provides similar incentives at the federal level, he would have to find offsetting means of raising government revenues. One of AMLO's promises is to fight tax evasion and improve tax collection to increase government income.

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AMLO'S ENERGY INFRASTRUCTURE PROJECTS  
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14. (SBU) Among AMLO's grand infrastructure projects are two major refineries to be built to replace imported gasoline with domestic production. Given that AMLO doesn't favor private investment in the energy sector, AMLO has three options to finance these projects. He could either reduce spending on other government programs (security, education, health, etc.); he could divert Pemex resources away from exploration and production, or he could borrow more money. Thus far, AMLO has suggested these projects could be financed using the savings from cutting government bureaucracy.

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15. (SBU) Any future president will also face billions of dollars in needed infrastructure in the electricity sector. If AMLO forbids private investment in the sector, the government will have to bear those costs, which, in electricity generation at least, have largely been borne by the private sector in the last decade.

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MADRAZO PROPOSES "SYNERGIES"  
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16. (SBU) Institutional Revolutionary Party (PRI) candidate Roberto Madrazo proposes amending regulations to allow for better coordination between federal, state, and municipal government efforts in infrastructure planning and financing. Madrazo's vague proposal includes a strategy to link economic and industrial policies with urban development policies. Madrazo believes these efforts would yield "synergies" between the public and private sectors. For less developed states, Madrazo proposes using public resources, and for states with higher income per capita, as Calderon, he proposes the continuation of Fox's service provision schemes (PPS), which combine public and private resources. The government's main role in infrastructure projects would be as a regulator and its participation will be restricted to larger, high-impact projects. For infrastructure in the energy sector, Madrazo will continue using the current borrowing mechanisms, which many believe have reached their limits.

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UNIONS AND GROWING PENSION COSTS  
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17. (SBU) Analysts agree that all the candidates' proposals are feasible, some more so than others. One funding constraint all candidates will face is the growing burden of unfunded pension liabilities, which each year squeeze public sector budgets more and more. To prevent public sector

budgets from being overwhelmed by pension costs, any future president will have to confront the unions, which have and will continue to bitterly oppose any pension reform. AMLO's chief economic advisor, Rogelio Ramirez de la O, has made it clear that AMLO is aware of the need to confront the unions. Calderon himself has promised to diminish the power of unions. Madrazo, on the other hand, has not addressed the union problem as they are largely PRI creations and long-time PRI supporters.

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COMMENT  
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18. (SBU) Campaign promises around the world always meet budgetary realities once candidates reach office. The candidates should be applauded for at least beginning to address the funding needs of their grand infrastructure proposals, which are key to their economic plans. They will not be able to escape the need to reign in pension costs if they want to move forward on their spending plans. But even if pension cost pressures moderate, the sheer costs of massive transportation and energy infrastructure costs cannot simply be met by either more borrowing or by cutting government waste. An encouraging fact is that the private sector will have to play a role. End Comment.  
GARZA